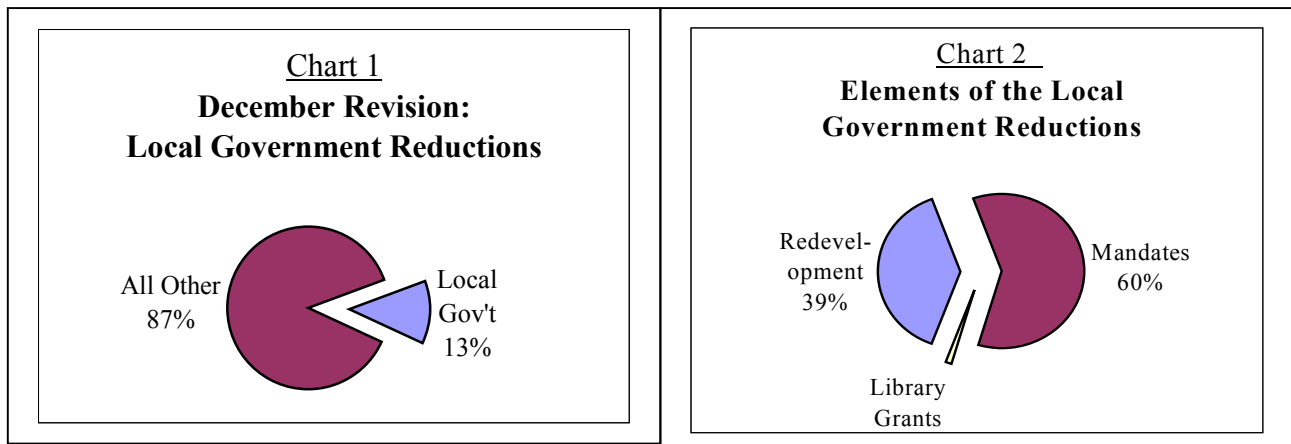


Local Government

LOCAL GOVERNMENT

The December Revision reduces funding directly available to local government in three ways. Of the \$10 billion proposed in the plan, local government reductions would total about \$1.3 billion (13 percent of the solution), as displayed in Chart 1.



Specifically, the December Revision proposes to:

- Reduce payments for reimbursement of mandate claims for a General Fund savings of about \$770 million.
- Transfer from redevelopment agencies \$500 million to the General Fund.
- Reduce Grants to the Public Library Foundation by \$15 million.

Chart 2 displays the proportionate share of these proposed reductions.

PUBLIC LIBRARY FOUNDATION

The December Revision reduces the non-Proposition 98 General Fund appropriation for the Public Library Foundation (PLF) grants by 50 percent in the current budget year. This saves the General Fund \$15.8 million in 2002-03.

What needs to be done by the end of January? Pass a bill reverting \$15,766,000 from item 6120-221-0001, Budget Act of 2002. The PLF money for the 2002-03 budget year goes out in February 2003. No other action is required.

Consequences. A midyear reduction to the Public Library Foundation is problematic for two reasons.

1. Funding libraries is good public policy.
2. This program has already suffered a series of recent cuts.

In 2001-02, the PLF was funded \$53 million. The Administration's proposal to reduce it to \$15.7 million will result in a 70% funding loss in two years.

The Public Library Foundation grants provide the primary state funding for public libraries. Although never fully funded, the program was intended to replace some of the revenue lost in the funding cuts that followed Proposition 13. The grants are made on a per-capita basis to local libraries which use them for acquiring library materials, staff, operating expenses, and equipment. Many libraries fund their book budgets with these funds. Others use them to extend library hours, operate bookmobiles, or provide children's services.

The role of California's public libraries has evolved over time. Today, libraries have become an extension of the public school system and play a crucial role in combating both child and adult illiteracy. Many libraries provide preschool literacy readiness programs, summer reading programs, Homework Help Centers, reach out and read programs, and participate in Raising a Reader, the California Literacy Campaign, and the Families for Literacy Program. In addition, public libraries provide training and access to computer technology and the Internet to children and families who cannot afford it in their homes. Reducing funding to libraries puts these programs and services at risk.

According to the policy consultants, the libraries with the fewest resources, primarily county libraries, will be hurt the most by a reduction in PLF funds. Operating hours will likely be shortened, book budgets cut, and some programs eliminated. The long-term consequences of reductions will depend largely on what happens in the budget to other library funding sources, primarily the property tax. If local governments lose additional property taxes (e.g. ERAF) or other discretionary sources of revenue, the consequences for libraries could be dramatic. Recall the early 90's after the ERAF shifts when libraries cut their hours, closed branches, and eliminated programs.

This reduction can be accomplished through an amendment to the 2002 Budget Act and does not require statutory law change.

TRANSFER OF UNENCUMBERED LOW AND MODERATE INCOME HOUSING FUNDS TO THE STATE

The December Revision requires redevelopment agencies to send the unencumbered balances from their Low and Moderate Income Housing Funds to the State General Fund. The Department of Finance assumes that this transaction would shift approximately \$500 million to the General Fund in 2002-03.

To achieve the transfer, the department suggests passage of statutory law requiring redevelopment officials to write checks to the State Controller before the end of fiscal year 2002-03.

Analysis. The Administration's proposal doesn't work. It's the *wrong* method, for the *wrong* amount, in the *wrong* year, of the *wrong* money, that perversely benefits the *wrong* redevelopment agencies.

- *Wrong method.* The state government lacks clear constitutional authority to take money out of redevelopment agencies' trust funds. The better alternative is to use the Educational Relief Augmentation Fund (ERAF) to shift property tax increment funds on a one-time basis.
- *Wrong amount.* State officials don't know what redevelopment agencies hold as an "unencumbered balance" in their housing funds. It may be \$113 million in "unreserved undesignated" money (SCO), \$499 million (HCD), or \$514 million in "unreserved" money (SCO). Policy staff suggest that the Legislature use an alternative way to get \$500 million from redevelopment agencies.
- *Wrong year.* The Administration wants to divert funds that were unencumbered as of December 1, 2002. Redevelopment agencies that are committed to building affordable housing have legitimate projects in the pipeline. Taking their as-yet-unencumbered money in the current year will cause deals to fall through. Policy staff suggest that the better alternative is to divert the \$500 million in the 2003-04 fiscal year.
- *Wrong money.* Redevelopment officials must set-aside 20% of their annual property tax increment revenues to increase, improve, and preserve affordable

housing. They use the other 80% to promote economic development and eradicate blight. Taking \$500 million from redevelopment agencies' housing funds stops the construction of 10,000 to 15,000 affordable housing units. Given California's housing crisis, it's bad policy to take away money that's earmarked for affordable housing. Policy staff suggest that the better alternative is to take \$500 million from redevelopment agencies' economic development programs.

- *Wrong agencies.* Some suburban redevelopment agencies have high reserves in their Low and Moderate Income Housing Funds because they don't want affordable housing. Taking away their money rewards their foot-dragging. The better alternative, policy staff suggest, is to take \$500 million from all redevelopment agencies in proportion to their indirect subsidies from the State General Fund.

Is "trailer legislation" needed? Yes. The Administration's proposal requires an amendment to the Community Redevelopment Law. The alternative requires amending both the Community Redevelopment Law and the property tax allocation statutes.

Preferred alternative. Instead of enacting the December Revision, the Legislature should:

1. Suspend the state subsidy to redevelopment agencies in 2003-04 (not 2002-03).
2. Allow redevelopment agencies to recoup that lost revenue by extending the life of redevelopment projects by two more years.
3. Declare an 18-month moratorium on new redevelopment efforts.

Background. Property tax increment revenues were \$2.1 billion in 2000-01. About half of that money (53%) came from K-12 schools, requiring the State General Fund to backfill school districts' apportionments by \$1 billion. According to the only independent study of redevelopment's effectiveness, half of the tax increment revenues would occur without redevelopment (Dardia 1998). Therefore, the State General Fund's indirect subsidy to redevelopment agencies is about \$500 million a year. That's the same amount that the Administration wants.

This alternative proposal:

- Saves the State General Fund \$500 million by suspending the state subsidy to redevelopment agencies in the 2003-04 fiscal year.

- *Requires* county auditor-controllers to shift half of the property tax increment revenues that a redevelopment project would have diverted from K-12 schools in 2003-04 to the Educational Revenue Augmentation Fund (ERAF).
- *Requires* redevelopment officials to still put 20% of their gross property tax increment revenues in the Low and Moderate Income Fund.
- *Protects* redevelopment agencies' constitutional obligations to make payments on the principal of their outstanding bonds.
- *Extends* the time limit on the life of redevelopment projects and the flow of tax increment funds by two years beyond the statutory deadlines, as mitigation.
- *Prevents* local officials from creating new redevelopment agencies, approving new redevelopment project areas, expanding existing project areas, creating new debt (except for affordable housing), and issuing bonds (except for refinancing bonds) from January 1, 2003 to June 30, 2005. This temporary moratorium prevents more redevelopment losses from the State General Fund.

DEFER PAYMENTS ON MANDATES

The December Revision reduces state funding for reimbursing local governments for their costs of complying with state mandates. In 2002, the Legislature reduced appropriations for the reimbursement of mandates. Specifically:

- It reduced reimbursements for the cost of mandates incurred before July 1, 2002.
- It reduced reimbursements for the cost of mandates incurred in 2002-03. As such, it did not prospectively "suspend" mandates for 2002-03. Had the Legislature "suspended" the mandates, then local governments would have been under no obligation to comply with state law requiring various local activities. Without a mandate, state costs for reimbursement would be eliminated.

As a result of reducing the reimbursements, the Legislature deferred making payments to local governments.

The December Revision appears to continue this practice. According to the Department of Finance, the state will defer costs of about \$770 million until a future budget. Local governments' discretionary revenues will be reduced by a commensurate amount in the period through June 30, 2004.

ALTERNATIVE: ELIMINATE STATE BOOKING FEE PAYMENTS

In lieu of the reductions in the December Revision, the Legislature could consider reducing subventions for booking fees.

Background. To provide fiscal relief to counties, the Legislature authorized counties to charge booking fees to cities and other local agencies that book arrested persons into county jails (SB 2557, Maddy, 1990). To provide fiscal relief to cities, the Legislature provided a continuous appropriation to reimburse cities for the booking fees they pay to counties (AB 1662, Leonard, 1999). In 2000, the Legislature expanded the reimbursements to include special districts (SB 225, Rainey) and to cities that pay booking fees to other cities (AB 2219, Battin).

The version of AB 1662 that created the reimbursements in 1999 was never heard in policy committee in either house. The policy justification for the program is arguably weak and, at best, controversial. Cities were required to make a one-time claim for reimbursement based on their 1997-98 costs. Those amounts are now automatically sent to cities each year. Since no further information has been required from cities, we don't know how closely the reimbursements resemble cities' costs. However, some cities get reimbursements for fees they no longer pay.

Rather than cut funds midyear to local governments, policy staff suggest that the Legislature could reduce 2003-04 booking fee reimbursements. This alternative affects fewer communities. This alternative also gives the Legislature time to revisit the booking fee reimbursement policy.

Because the booking fee reimbursements for the current budget year have already been paid, a mid-year reduction is not possible. In 2002-03, the state subvented \$38 million.

This alternative proposal:

- *Saves* the State General Fund at least \$15.8 million by reducing the state reimbursement to cities and special districts in the 2003-04 fiscal year.
- *Requires* legislation amending Government Code §29550.4 to allow for the reduced reimbursements.
- *Reduces* funding for a questionable program while protecting a good one.

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